MEMORANDUM

To: **Holland Team**

From: **Stuart McDermott**

Weekly News

Date: **01/17/05**

<u>Action Items</u>

Redacted

Radar screen:

Redacted

Redacted

GOVERNMENT EXHIBIT 1026
08 Cr. 181 (TPG) (ID)

Redacted

Doral Financial (DRL) $44.00
1/18 Reported Q4. Numbers looked great at first glance, but the Achilles heel of DRL came back to bite it – it does not do conference calls (that may change now) and it had a confusing line item regarding a write down of its interest only strip by $97m. A few analysts said that this was due to ineffective hedges. After talking to the treasurer I feel very good about the results and his explanation. This is a great example of the inefficiency of markets, with the stock down (11%) today on this misunderstanding of this news. Details:

DRL blew away the numbers. Everything looks good, in terms of loan growth, credit, etc. They are sitting on $2.5B in cash, not earning anything of significance, waiting to redeploy as rates increase. But the crux of what is on investor's minds –

I spoke to the treasurer, and here is what he said:

$97m I/O write down of the servicing strip, offset by unusual tax gain of about $80m due to acceleration of deferred tax assets under a capital gains tax law change. Basically, DRL saw an opportunity to write the I/O well below a level that it had previously, using a very conservative assumption, and offset this with the gain as two one timers. The upshot would to put the I/O in a very conservative valuation, setting up one more tailwind for DRL in '05. Unfortunately, the market did not understand. At worst DRL is guilty of some sort of pushing out earnings, by depressing Q4 given its robustness.

DRL valued the I/O with the assumption that LIBOR increases by 150bps in the next twelve months. They had been using 100bps. Had they used 100bps again, it would have seen a loss of $25-30m, not the $97m. Accoutnants gave it their blessing, because there are a few out there who believe that LIBOR will increase 150bps over the next 12 months.

Hedges had nothing to do with this. The analyst was wrong. Analyst put out the report before speaking with the company, he was angry that he had to wait to talk to the treasurer. He also cut his '05 to $4.00, cutting it $.60. He will look foolish if he stays down there. They have subsequently talked and he will likely put out a clarifying note.

If see LIBOR going beyond the 150bps, they will hedge.

DRL will exceed '05 and '06.

Volume was +25x usual volume – he said that 2 institutions – qunat shops sold entire positions, they do not talk to us, each owned about 2m shares. This explains 4m of the 9.5m shares sold today.

He had 10 more calls after this – at 3:30pm.

Will see insiders buying after blackout period ends.

DRL thought it was increasing the quality of earnings by taking this step.

Eff tax raet will now be 12% in '05.

1/7 DRL released a positive press release, saying that Q4 mortgage production was very strong, in fact December was a record month in the company's illustrious history. The press release went on to add that DRL expects a very strong '05, given the current state of the Puerto Rican housing market. '05 will also be buoyed by strong commercial real estate growth as well as growth in other loan products.

1/7 We sold 1.2% from the madcap account, bringing us to a 4% position, still one of the largest weights in the portfolio.

Outlook: Q4 was terrific but controversial, misinterpreted by the market. The fundamentals remain superb. The stock trades at 9.8x forward. Very strong fundamental results to continue. I would not sell any here, if it gets beat up any more, I would advocate ADDING.

Redacted

GX 1203

From: Sammy Levis
Sent: Tuesday, January 18, 2005 10:30 PM
To: 'Jay Cunningham'
Subject: RE: How soon can we chat on the quarter

Given the hectic schedule tomorrow, let me initiate as I may be late a few minutes or require a change. If you don't hear from me on or before that time, give us a call for an update. Thanks for your understanding.

-----Original Message-----
From: Jay Cunningham [mailto:JCUNNING@hibernia.com]
Sent: Tuesday, January 18, 2005 6:22 PM
To: Sammy Levis
Subject: RE: How soon can we chat on the quarter

absolutely. thanks. want me to call, or you?

Jay Cunningham, CFA
Vice President
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>>> "Sammy Levis" <Sammy.Levis@doralfinancial.com> 1/18/2005 4:03:31 PM
>>>
NIM remained strong and the same level. Also, gain on sale stayed strong at same level. We took a window of opportunity as a result of a change in the the tax laws and use the savings to value more conservative our IOs assuming higher Libor rates. Do you want to book for a conference call tomorrow at 12pm?

-----Original Message-----
From: Jay Cunningham [mailto:JCUNNING@hibernia.com]
Sent: Tuesday, January 18, 2005 5:54 PM
To: Sammy Levis
Subject: RE: How soon can we chat on the quarter

as I was afraid of. looks like core number was 66 cents. how much did you guys pull forward to take advantage of tax situation? did you clear the way on the IO for better numbers next year. and did you do the same in hedging? can you give me an idea on the NIM? if not a number, up or down v 3q

Jay Cunningham, CFA
Vice President

GOVERNMENT EXHIBIT 1203 08 Cr. 181 (TPG) (ID)

GX 1205

HIBERNIA SOUTHCOAST CAPITAL
MEMBER NASD/SIPC
A Wholly Owned Subsidiary of Hibernia Corporation.

January 19, 2004
Change in Recommendation

DRL / NYSE $44.00 **Doral Financial Corporation**

Please see important disclosures and analyst certification on page(s) 2 - 3 of this report.

Financials - Banks

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Statistics

Market Cap. (mil)	$4,747.60
Avg. Daily Vol.	378,653
52 Wk. Range	$49.45 - $30.25
Sh. Out. (diluted,mil)	107.9
Dividend	$0.72
Dividend Yield	1.64%
P/BV	3.4x

Estimates

EPS (Net)	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	FY
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2004	$0.83A	$0.93A	$0.97A	$1.22A	$3.95A
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	FY03A	FY04A	FY05E
BV per Share	$9.45	$12.97	$17.00

Multiples

	FY03A	FY04A	FY05E
Price/EPS	16.3x	11.1x	9.7x

Rating: **BUY**
Target Price: **$53.00**

Doral Financial – Fears Overdone

Action

Upgrading to BUY, increasing target to $53 from $51, and increasing 2005 estimate to $4.55.

Key Points

- **We are upgrading the shares of DRL to BUY from HOLD. We believe that the concerns surrounding the fourth quarter have been over-blown and that the decline in the shares today represents a buying opportunity.**

- **Although there was plenty of confusion about 4Q04, our conversation with management has alleviated our concerns about potential IO issues ahead.** Management indicated that they have been very conservative in their rate assumptions surrounding the IO and that they are using a YE04 three-month LIBOR of greater than 4%. Our other concern is about the hedging activities for the IO. Management indicated that the hedging previously has not been as sound as they would have liked but pointed out that the hedge effectiveness has been improving over the past several quarters.

- **Regarding the gain on sale yield, we believe that the company will continue to have an above-average yield going forward, and we feel more comfortable with increasing our assumptions going forward.**

- **There was a modest decline in the NIM in the quarter, as we had suspected, and we continue to believe that there will be further pressure ahead.** However, the company has nearly $2.5 billion in money market funds that are under-earning at this point, and the equity/assets ramped to over 13% in 4Q. So we believe there is enough potential fire power in the balance sheet to overcome possible NIM compression.

- **Finally, the company stated the effective tax rate for the next six quarters could be 12%** due to the tax strategy used 4Q relating to the temporary benefits in the Puerto Rico tax legislation. Adjusting our model accordingly brings our 2005 estimate to $4.55. Using a normalized tax rate of 18% yields an EPS estimate of $4.23.

- With the shares currently trading at less than 10x our 2005 estimate, we believe the risks and fears have more than adequately been priced in. **Therefore, we are upgrading the shares to BUY from HOLD, and we are increasing our target price slightly to $53 from $51 (which is supported by our DCF and sum-of-the-parts valuation). We believe the shares offer limited downside risk and total return potential of nearly 20%.**

GOVERNMENT EXHIBIT
1205
08 Cr. 181 (TPG) (ID)

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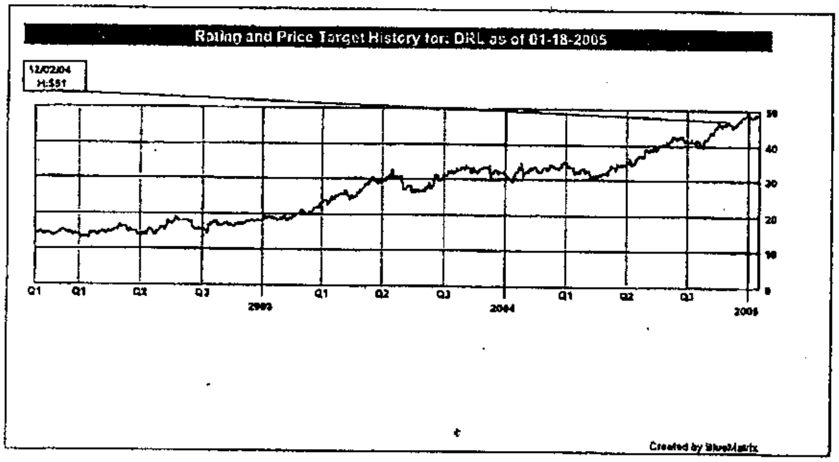
Distribution of Ratings/IB Services
Hibernia Southcoast Capital

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY (B)	80	65.57	9	11.25
HOLD (H)	40	32.79	1	2.50
SELL (S)	2	1.64	0	0.00



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Additional information is available upon request by writing to the Equity Research Department; Hibernia Southcoast Capital; 909 Poydras Street; Suite 1000; New Orleans, LA 70112.

GX 1206a

>>> "Sammy Levis" <Sammy.Levis@doralfinancial.com> 2/10/2005 11:34:02 AM >>>

Jay: Because of FD regulations cannot comment on the specific number and assumptions on the I/Os. Need to wait until 10K.

Regarding caps, all loans sold have a cap. Where are you getting the idea that some have no caps? That's not true at all. Maybe you are referring to the fixed I/Os which don't need any caps, since they are fixed. These caps are embedded in each contract and all of them are significantly below the WAC of the loans, so Doral will always have a hefty and positive spread. Also, it's important to note that most existing net yields paid to investors are close to the caps. The pricing ranges from Libor plus 100 to 150, probably for an average of 125.

Hope this helps, Regards, Sammy

GX 1208

HIBERNIA SOUTHCOAST CAPITAL
MEMBER NASD/SIPC
A Wholly Owned Subsidiary of Hibernia Corporation.

March 7, 2005
Change in Recommendation

DRL / NYSE $41.88 — Doral Financial Corporation

Please see important disclosures and analyst certification on page(s) 6 - 7 of this report.

Financials - Banks

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Statistics

Market Cap. (mil)	$4,519.22
Avg. Daily Vol.	1,709,933
52 Wk. Range	$49.45 - $30.25
Sh. Out. (diluted,mil)	107.9
Dividend	$0.72
Dividend Yield	1.72%
P/BV	3.2x

Estimates

Estimates	Q1	Q2	Q3	Q4	
EPS (Net)	Mar	Jun	Sep	Dec	FY
2004	$0.83A	$0.93A	$0.97A	$1.22A	$3.95A
2005	$1.13E	$1.09E	$0.98E	$0.92E	$4.11E
2006	$1.06E	$1.09E	$1.05E	$1.08E	$4.28E

	FY04A	FY05E	FY06E
BV per Share	$12.97	$17.00	$20.50

Multiples

	FY04A	FY05E	FY06E
Price/EPS	10.6x	10.2x	9.8x

Rating: **HOLD**
Target Price: **$38.00**

IO, IO, Down to HOLD We Go

Action

Downgrading to HOLD from BUY. Decreasing target price to $38 from $53. Lowering 2005 EPS estimate to $4.11 from $4.55 and 2006 to $4.28 from $5.04.

Key Points

- **We believe the risks to further IO impairment continue to exist** and that the actions taken by management in 4Q04 may not prove to be the last. Our work suggests that additional impairments may be north of $100 million.

- **We believe that the gain on sale margin will likely be falling** from the 7% level realized in 4Q04. While management believes that commitments will bring this margin to the 7% level, we are no longer comfortable suggesting that this will prove to be the case.

- In our opinion, **capital ratios may not be as strong as the stated ratios appear.** After we adjust for the IO and preferred stock, we believe that the capital position currently held by the company allows for significantly less maneuverability than commonly thought.

- Combined, **we believe there are risks to EPS and valuation and that a HOLD rating is more indicative of the risk profile at this time.** The large change in our target price is reflective of the lower earnings power we have modeled, the lower capital ratios that we believe exist, and the increased risk of further impairments. We base our $38 target price on our P/E and sum-of-the-parts valuations.

GOVERNMENT EXHIBIT
1208
08 Cr. 181 (TPG)
(ID)

Discussion

We are downgrading the shares of Doral Financial to HOLD from BUY at this time. We are also lowering our target price to $38, our 2005E EPS to $4.11 from $4.55, and our 2006E EPS to $4.28 from $5.04.

We upgraded the shares of DRL to BUY from HOLD after the 4Q04 earnings release and the subsequent weakness in the shares. To recount, the 4Q release brought up concerns that the IO portfolio could see further impairments ahead, and we believe this was the main issue contributing to investor angst. After conversations with management, we were of the opinion that the assumed interest rate at YE05 was adequate to not bring further impairments. Additionally, while we had voiced concern over the gain on sale margins the company had realized, management stressed to us their comfort level with the margin over the next 12-18 months. Management focused on the commitments the company had for expected production, many of which had pre-determined pricing. As such, we increased our gain on sale margins and did not factor in any losses to the IO, and consequently moved to a BUY rating. Since then, we have continued our work on the mortgage operations, and our comfort level with a BUY recommendation has markedly declined. At this time, we cannot reasonably have a BUY rating, as the risks to the model appear larger than we had previously found. Indeed, as we will walk through below, we can create scenarios under which the earnings power of Doral could be materially jeopardized.

Gain on Sale Margin

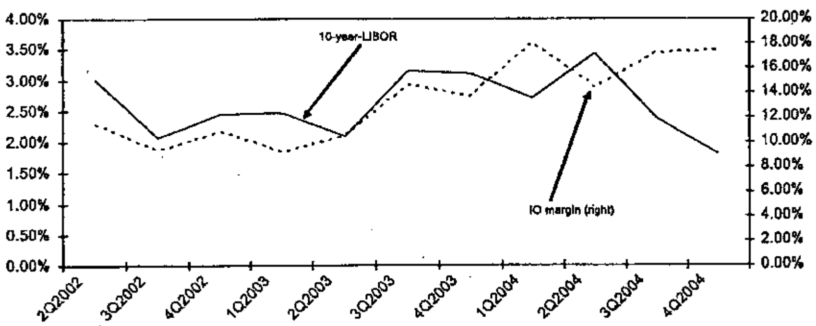
In our initiation piece, we voiced concern over the gain on sale margins the company had realized, and we believed that these margins would fall over time. We noted that as the curve flattened we could not see how the margin would be maintained. And, despite management stating that the potential future production had, and has, commitments, the present value of these expected future cash flows did not work for us. Our initial estimates were below consensus, with the primary culprit being lower gain on sale margins.

Fast forward to 4Q04, and our conversations with management were similar to those in the past, and management's confidence in the gain on sale margin was again emphasized. As such, we increased our assumed margin, which provided the lift in our estimates. After closer examination of our model, and the economics of the IO creation, we have now determined that the gain on sale margin must indeed have compression going forward.

The argument that management sets forth is that potential future production already has commitments and that the pricing thereon is largely predetermined, and therefore their confidence in the margin is high. On the one hand, we believe there is merit to management's comments and that margin may in fact be set. But, we are not comfortable with the handful of assumptions that are behind this pre-set margin. To begin, the simple math of the IO creation, which is the vast majority of the gain on sale figure, tells us that as the curve flattens there will have to be a lower margin. Management counters this by saying that they have been able to increase the pricing on non-conforming production and that this has not dampened production levels. While this may prove true in the near term, we are simply not comfortable assuming that this remains the case indefinitely. There also have to be certain assumptions surrounding the average life of the portfolio. Should the average life expand meaningfully then this reasonably argues that total production will be slowing. If this is the case, then we will have different things to worry about. Should total production slow, there is the potential that management would not be able to meet the commitments that they have. However, note that there is a slight lag in required delivery that can range from three to six months. Management contends that this cushion can buy them time to meet the requirements. Should production meaningfully decline, it stands to reason that one measure that may be used is more aggressive pricing. We cannot say with certainty that this would be the case, but the rational appears logical. While this would meet the commitments, the rate received would be lower (more aggressive pricing), and hence the margin would have to decline. Another argument that can be made is that Doral "holds all the cards" in Puerto Rico. We believe that Doral holds roughly 45% of the mortgage market in Puerto Rico. At the same time, we are of the opinion that other institutions are hungry for balance sheet growth. Combined, it can be reasoned that Doral can dictate terms on loan sales. To counter this argument, one has to assume that buyers of Doral's production are content buying floating rate paper that has a cap of, at best, 200 bps. For the paper originated over the past several quarters, it is then conceivable that in the very near future this paper will be hitting the cap, therefore potentially hitting margins for the institutions that bought from Doral. We believe that there are two arguments to be made here- either that Doral holds all the cards and that there may be real margin issues for the buyers of Doral's production, or that the buyers are rational and that the gain on sale margin for Doral will have to decline. There is merit to both, but caution suggests that we assume the gain on sale margin has some level of degradation. Regarding caps, management has indicated that the originations are indeed sold with caps in place and that these are about 200 bps. However, our work suggests that not all production have caps, exacerbating the potential impairments for the IO (more below).

The IO creation is the recognition of the present value of the expected future cash flows of the instrument. Doral originates at a fixed rate and then sells at LIBOR plus roughly 100 bps. Also, some of the production has caps wherein the rate paid may not advance over some level, typically around 200 bps, from the origination pricing. As we have worked through the IO creation, we can understand the margin realized over the past several quarters. It is important to realize that this margin has expanded meaningfully over the past several years, moving from 8% in 2001 to over an estimated 17% in 4Q04. Why? Figure 1 graphs the IO margin with the slope of the curve over the last several quarters. It is clear from this that the slope is what matters in the pricing. As the difference between the origination rate and the cost expands, so too does the gain on sale margin. As we have stated prior, as the slope flattens there must be a corresponding decline in the margin. As stated above, there is the possibility that Doral can push through higher rates on production, despite the 10-year not having meaningfully moved, and hence maintain the spread between the rate received and the cost of such. However, we simply do not believe that this will last, and Figure 1 illustrates our point.

Figure 1: Gain on Sale Margin and Spread of 10-year over LIBOR



Source: Company reports, Federal Reserve, Bloomberg, Hibernia Southcoast estimates

Our work on the gain on sale recognition suggests that the vast majority of the gain is generated from the IO creation, which is a function of the securitization of non-conforming production. Indeed, we believe that over 80% of the gain on sale in 4Q04 came from securitization activity. We estimate that securitizations yielded a margin of 17%, dramatically higher than the 7% gain on sale stated margin. As the curve flattens, we believe this margin must decline, perhaps meaningfully. Using 4Q04 results, we estimate that every 100 bps decline in the margin for securitizations is worth roughly $8 million. We believe that this will drop straight to the bottom line, and we estimate that every 100 bps is worth $0.04 in EPS. To put this in perspective, should the margin for securitizations drop to the 8% level witnessed in 2001, we estimate that EPS could be hit by $0.33. Alternatively, if we assume that commitments do have predetermined pricing, and that commitments cover anticipated production over the next 12-18 months, we believe there to be the same concerns voiced above in at least 2H06.

IO Impairment

Will there be further impairments of the IO? We initially believed that this would be the case. But, after speaking with management our opinion changed (for the near term). Let's walk back to 2Q04 when the IO was carried at $758 million and had a supporting balance of $5.6 billion. The IO was therefore carried at a margin of 13.5%. Since that time, we estimate that the company has increased the balance by approximately $900 million, for an ending balance of roughly $6.3 billion. We believe the company added approximately $140 million in IOs in 4Q04. We estimate the ending value of the IO to be roughly flat with 3Q04 (or $862 million). For the impairment to have been the $97.5 million, we estimate the company was assuming LIBOR of less than 3.25% previously and that the new rate assumed is close to 3.60%. Management had indicated, after the 4Q04 earnings release, an assumed LIBOR rate of 4% by YE05. However, we do not believe this to be the case currently. Also, we believe there may have been some changes to other assumptions. Note that at YE03 the company used a discount rate of 9% for the IO, yet recently used 8.25%. Also note that at YE03 the company used a prepay speed of 17.99%, while at 3Q04 the assumption was 10.50%. Understand that as the discount rate declines, the value of the IO increases; as the average life assumption declines, the value of the IO increases. We estimate that had YE03 assumptions been used today the value of the IO could be lower by approximately 25%. Should prepays indeed decline, which we have not seen in the results from the servicing portfolio at DRL, then indeed the IO assumptions concerning such may be fair. However, behind this assumption should reasonably be higher origination rates. If this is the case, then total production should be slowing as

well. We believe that as the fed continues to tighten, and as LIBOR continues to increase, additional impairments are likely. We believe that the additional potential impairments may be slightly greater than $100 million. While management has neither confirmed nor denied this figure, they have stated that additional impairments are still possible, but they hope these will be offset with new hedges. We do not believe these impairments will be seen in the next few quarters, but will be realized in 2H05. We are especially worried that even further impairments may be realized should fed funds ramp beyond 3.50% - 3.75%, and we have not factored these into our projected impairments. We estimate that $100 million in impairments would be worth $0.60 in EPS. With a consensus estimate of $4.50 for 2005, this represents almost 15% of EPS. Stated differently, should this impairment be realized in 2005, EPS could be $3.90 (all else equal). Other concerns are borne from OCC documents relating to IO strips and capital. Specifically, the OCC has commented that a bank may well overvalue its interests and "thereby inappropriately generate 'paper profits' (or mask actual losses) through incorrect cash flow modeling, flawed loss assumptions, inaccurate prepayment estimates, and inappropriate discount rates." This statement alone gives us enough pause to justify our HOLD rating.

Can DRL match the impairments with hedges? Management indicated at YE04 that the company has increased its hedging activities surrounding the IO. We believe DRL has long put positions against LIBOR and various caps in place. We also believe that management has the ability to call previous production should the underlying costs, i.e. LIBOR, prove to bring further impairments. The benefit of the latter will be that the IO will not be at risk, and the total IO on the balance sheet will be reduced. However, the balance sheet will either have to expand by the amount of production brought back on or this production will have to be sold with a significantly lower gain. While the capital requirements would diminish, so too would the EPS. We believe DRL would have to reverse the IO creation, or at a minimum pay the current IO valuation for these balances. We estimate that bringing on 1/3 of existing balances would increase the balance sheet by roughly $2 billion and cost the company $287 million in IOs. We assume the above 8% capital requirement by investors, thereby bringing $127 million in excess capital. However, we estimate the $2 billion added to the balance sheet would realize revenues of only $40 million (we are assuming a NIM of 2%). Even if the potential excess capital was fully levered, we estimate NII of only $71 million. This illustrates why DRL has been so very active in removing the production from the balance sheet. We estimate that the annualized gain on sale revenue of 4Q04 is the equivalent of $33 billion in average earning assets ($165 million *4 = $660 million / 2% NIM = $33 billion).

Capital

Another ramification of the lower potential earnings is the lower level of capital creation. One of the arguments made for owning the shares of DRL has been the apparent excess capital position of the company. At 4Q04, the company had an equity/assets ratio slightly greater than 13%. Prima facia, the argument can be made that this excess capital can be utilized in any number of ways, ranging from additional leverage to share buybacks. But let us examine the capital more closely. We believe that the IO requires capital of 100%. At 4Q04, we estimate that the IO accounted for roughly 45% of stated capital. For the sake of argument, let us assume that the gain on sale margin continues at current levels and that consensus estimates for 2005 are correct. Therefore, we estimate that DRL may create approximately $525 million in capital in 2005, with an ending value of roughly $2.5 billion. We believe that consensus estimates hold roughly $500 million in IO creation. This would bring the ending balance of the IO, assuming the same amortization rate as 2004, to roughly $1.25 billion. This would be the equivalent of 50% of the above estimated equity position. The required capital to support the IO will be $1.25 billion. If we assume investors require 8% capital, then the balance sheet can support roughly $15.5 billion in assets (excluding the IO). Another way we view the capital position of the company is to adjust total assets for the IO, and adjust stated equity as well. Here we estimate the equity/assets ratio at YE04 moves from a stated 13% to 7.8%. Looked at another way, which we believe is much more conservative, let's move the preferred stock out of equity. We do so as we believe that preferred is more appropriately considered debt. We also take our cue from the recent developments at W Holding, Inc. (WHI - $11.85, HOLD, $13 target price). WHI recently announced a formal SEC investigation regarding its securities portfolio and actions taken in 1H03. Without going into the details of such here (please see our report on WHI dated 2/28), we argued that the capital structure at WHI, which is similar to that of DRL, would likely cause investors to worry about the true capital adequacy of the company. At YE04, stated capital at Doral was $1.97 billion. Of this amount, $573 million was in preferred, yielding straight equity of $1.4 billion. We believe that capital must be held 1:1 against the IO. Therefore, we believe that true equity now becomes $535 million. Based on YE04 total assets of $15.1 billion, the equity/asset ratio becomes 3.5%. To be fair, we adjust total assets by excluding the excess liquidity of $2.4 billion as well as the IO, to have an asset value of $11.7 billion. The resulting equity/assets ratio becomes 4.5%. Even if we do not exclude preferred, the latter ratio moves to 9.4%. While this is a marked increase, it remains 364 bps below what the stated capital ratio is.

We believe that capital becomes even more interesting going forward. We believe that consensus estimates are holding roughly $600 million in gain on sale for 2005. We estimate that, on average, the IO accounted for 82% of total gain on sale in 2004. An over simplistic calculation suggests IO creation of approximately $500 million. The consensus estimate for 2005 is $4.50, and we estimate this number yields capital generation of $466 million (we are assuming no change in the dividend). Therefore, the IO creation alone will use all available capital generated, and then some.

Estimates and Target Price

We are lowering our EPS estimate for 2005 to $4.11 and for 2006 to $4.28. Our prior estimate for 2005 was $4.55. The major driver of this figure was a gain on sale margin of roughly 7% for the full year. For 2006, we had also assumed a similar gain on sale margin to arrive at our $5.04 estimate. Note that 2005 uses an effective tax rate of 12%, followed by 15% in 2006. At this time, we are factoring in $100 million in impairments for 2005, as well as a deterioration of the gain on sale margin. We have given management some benefit for hedging and have assumed that hedges offset impairments by 85%. For 2005, we have assumed a gain on sale margin of 6.5%, with the margin in 2006 being 6% (which may yet prove too aggressive). We have assumed that all production is sold or securitized. Where we could be too low in our estimates is if DRL sells production that is held on the balance sheet, as it did in 4Q04.

We are lowering our target price from $53 to $38. After closer examination, we believe that it can be argued that the securities portfolio generates better than half of the EPS. We believe that the costs associated with running the portfolio are minimal and that earnings are largely tax-exempt. We believe the balance of the EPS can then be allocated between the bank and the mortgage operations, and we believe these combined are worth, at best, $13. While our target price change is dramatic, we firmly believe that the target reflects the lower earnings profile we have modeled, the lower capital ratios that we believe exist, and the increased risks to further IO impairments.

Conclusion

We believe risks to EPS due to the IO and gain on sale margins are greater than we initially had believed and could be meaningful. While we had increased comfort in the IO valuation and gain on sale margins after conversations with management post the 4Q04 earnings release, our further work leaves us concerned. We believe that there is the real potential for further IO impairments ahead. While these may be offset by the increased hedging the company has done, we are not comfortable suggesting the offset will be 1:1. For the gain on sale margin, while management believes 2005 could realize a margin of 7%, we are not comfortable with this assumption either. We believe that the assumptions behind a 7% margin are simply too aggressive to continue to model. We also have concern over the capital position of the company. We estimate that the IO creation management is projecting could well use all the capital created in 2005. Further, after adjusting for preferred stock and the IO, we believe the core equity/assets ratio is well below the stated, leaving the company considerably less room to maneuver. We believe that should DRL indeed have the further impairments we are projecting, investors will become even more anxious about the quality of earnings at the company. While we have moved our target price to $38 (which is based on our P/E and sum-of-the-parts valuations), even this may prove aggressive. In our opinion, the risks are to the downside at this point, for both earnings and valuation. As such, a HOLD rating is more appropriate at this time.

HIBERNIA SOUTHCOAST CAPITAL
MEMBER NASD/SIPC
A Wholly Owned Subsidiary of Hibernia Corporation.

March 7, 2005
Change in Recommendation

DRL / NYSE $41.88 Doral Financial Corporation

Disclosures:

Investors should assume that Hibernia Southcoast Capital is seeking or will seek investment banking or other business from companies rated in this report.

The research analyst principally responsible for preparation of this research report has received compensation that is based upon (among other factors) HSC's investment banking revenues.

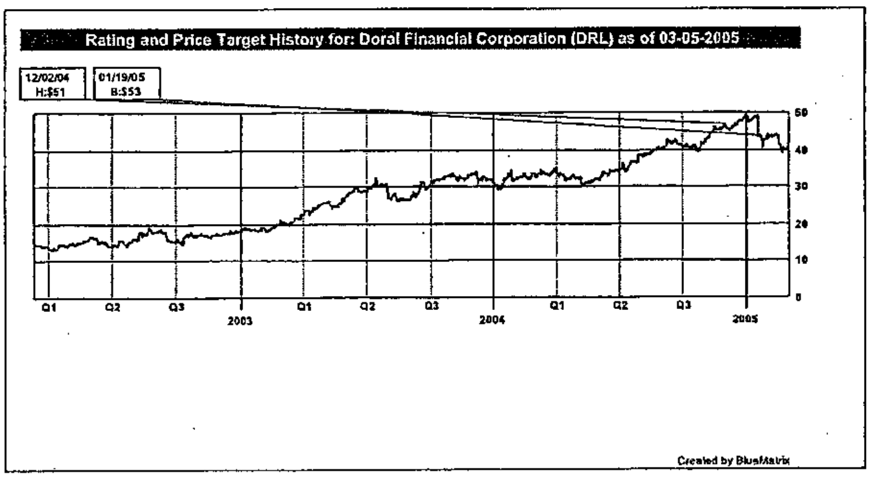
HSC has adopted the Investment Protection Principles.

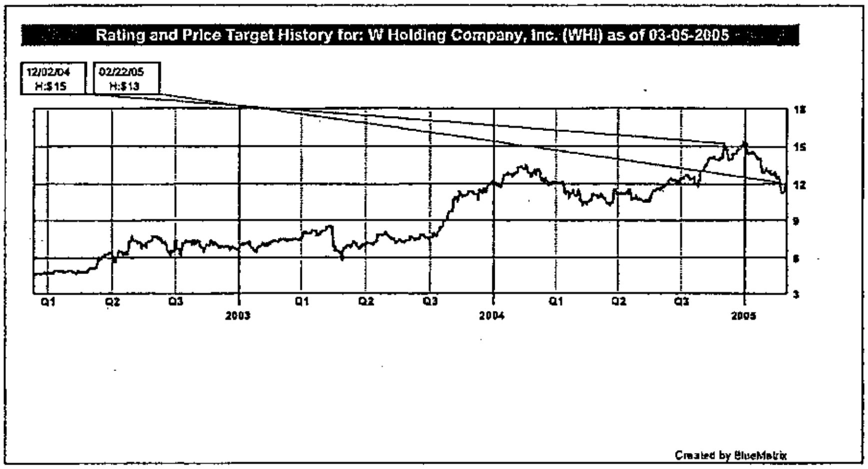
According to Reg AC, I/we, as (a) research analyst(s) of HSC, certify that the research opinion(s) expressed in this research comment/report accurately reflect(s) my/our personal view(s) and that no specific payment was received for this particular research product

Investment Rating: At the close of business on July 8, 2002, HSC changed its investment ratings. HSC now has three investment ratings representing a time frame of within twelve months. The ratings are as follows: (1) BUY, representing stocks deemed to have the potential to achieve a minimum 15% upside to current price; (2) HOLD, representing stocks that are deemed to have a greater amount of risk and/or less timely price appreciation potential, and (3) SELL, representing stocks where a negative return is expected. Prior to that HSC's investment ratings were Strong Buy, Buy, Hold, and Sell.

Distribution of Ratings/IB Services
Hibernia Southcoast Capital

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [B]	85	68.00	9	10.59
HOLD [H]	37	29.60	1	2.70
SELL [S]	3	2.40	0	0.00





Risks: Our target price(s) with respect to the company(ies) covered by this report are not guarantees of future performance. They represent forward-looking statements that involve risks, uncertainties, and assumptions. Our target price(s) are based on our beliefs and estimates and on information currently available to us about the company, including statements by its management concerning their expectations regarding its future results. The actual future price of the company's stock may differ significantly from our target price(s), because many of the factors that will determine that price are beyond our ability to predict. Among those factors are future economic conditions in the country as a whole, such as interest rates, inflation, economic growth, and consumer demand. We caution you that these and other important factors could cause the actual future price of the company's stock to be very different from or worse than our target price(s). Accordingly, you should not place undue reliance on our target price(s), which are based only on our current expectations. We undertake no obligation to update any of them in light of new information or future events. Additional factors specific to the company that could affect the future price of the company's stock are identified in the "Risk Factors" section of periodic reports that are required to be filed by the company with the Securities and Exchange Commission. You should evaluate our target price(s) in light of the risk factors, among others, identified by the company in those reports. Prior to the close of business on July 8, 2002, HSC did not provide target prices for stocks rated Hold.

Additional information is available upon request by writing to the Equity Research Department; Hibernia Southcoast Capital; 909 Poydras Street; Suite 1000; New Orleans, LA 70112.

GX 1210

HIBERNIA SOUTHCOAST CAPITAL
MEMBER NASD/SIPC
A Wholly Owned Subsidiary of Hibernia Corporation.

March 22, 2005
Change in Earnings Forecast

DRL / NYSE $23.90 — Doral Financial Corporation

Please see important disclosures and analyst certification on page(s) 6 - 7 of this report.

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Statistics

Market Cap. (mil)	$2,579.33
Avg. Daily Vol.	2,759,653
52 Wk. Range	$49.45 - $19.60
Sh. Out. (diluted,mil)	107.9
Dividend	$0.72
Dividend Yield	3.01%
P/BV	1.8x

Estimates

	Q1	Q2	Q3	Q4	
EPS (Net)	**Mar**	**Jun**	**Sep**	**Dec**	**FY**
2004	$0.83A	$0.93A	$0.97A	$1.22A	$3.95A
2005	$0.54E	$0.49E	$0.44E	$0.40E	$1.88E
2006	$0.79E	$0.79E	$0.76E	$0.75E	$3.09E

	FY04A	FY05E	FY06E
BV per Share	$12.97	$17.00	$20.50

Multiples

	FY04A	FY05E	FY06E
Price/EPS	6.1x	12.7x	7.7x

Rating: **HOLD**
Target Price: **$18.00**

1000 Cuts

Action

Lowering target price to $18 from $31; lowering 2005 EPS estimate to $1.88 from $3.61; lowering 2006 estimate to $3.09 from $4.27. Maintaining HOLD rating.

Key Points

- As we have stated several times over the last week, **the issues surrounding Doral continue to be plentiful,** and the answers are slowly but surely being found. If there is one thing that we have learned from Doral it is to take our time assessing all the drivers of a stock and to continue to ask "Why?"

- We continue to walk through our model with a fine toothed comb, and **we feel that lowering estimates again is the prudent measure.** We are lowering our EPS estimate for 2005 to $1.88 from $3.61 and for 2006 to $3.09 from $4.27.

- **We have been slowly but surely taking down numbers for the past few weeks, and we believe we have reached a plateau with today's note** (barring further events). As the story continues to unfold, we believe that so too will further risks.

- We have struggled with our rating, even at current levels, as **we continue to see risks ahead** and believe that the adjusted book value of the company is less than $8.00. Additionally, we believe the risks will be reflected in high price volatility.

- **Although we believe the share price will likely fluctuate greatly, we feel our new target price will be approximately at the mid-point of these fluctuations, which leads us to maintain our HOLD rating.**

- Our target price to $18 is based on both stated and our estimated cash earnings power, as well as our implied growth model.

Discussion

Estimate Details

The IO continues to be a concern for us, as we believe it is for many investors. We have taken a closer look at our assumptions and believe that we should assume a more conservative stance. We are not changing our assumption that there will be significant impairments ahead. Indeed, we are assuming that the IO has impairments of near $400 million over the course of 2005. We had initially modeled the derivatives offsetting about 85% of this impairment. However, our analysis suggests that unless the derivatives position has increased meaningfully, which it certainly may have, the effectiveness of the hedge will very likely be less than 85%. Indeed, from the 10-K we find that the hedge effectiveness ranges from approximately 48% to 94%, with the greater impairment having the greater hedge effectiveness. Upon closer examination of the hedges in place at YE04, we believe it more prudent to now relax our assumptions to a full-year effectiveness of 55%.

For the gain on sale margin, we are again decreasing our estimates. We had initially taken our number to slightly below 7% in 2005. However, we believe this number needs to be adjusted much further. We have estimated that the IO has accounted for near 85% of the total gain on sale margin revenue. We also estimate that the FY04 margin for the IO was 14.5%. However, the margin realized over the course of 2004 varied widely. For instance, we estimate that the margin in 3Q04 was over 17%, while that in 2Q04 was slightly greater than 14%. It is 4Q04 that is of the most interest to us. As we have noted, the company sold more in 4Q04 than it originated, and the portion allocated to the IO was significantly more than originated. We estimate that the margin in 4Q04 was approximately 12%. We believe that this should be the most that the company could reasonably recognize over the next several quarters and that there is a very real risk that the margin could be meaningfully lower ahead. If we assume that the margin attributable to the IO is 12% and that management does not continue to tap the balance sheet for additional non-cash revenues, we estimate that the gain on sale revenue in 2005 could be 30% lower than that realized in 2004. We believe the sensitivity of this equates to $0.19 in EPS for every 100 bps delta in the gain on sale for the IO. For FY05 we are now modeling a margin for the IO of 11.5%, followed by 11.2% in 2006. For the total gain on sale margin we are modeling 5% in 2005 followed by 4.78% in 2006. While these assumptions represent marked changes from levels realized in 2004, we note these levels are still above those realized in previous years.

We have been conservative in our assumptions of the NIM, and we simply want to revisit this briefly. The 10-K stated that DRL could have a 17.3% decline in NII should rates increase by 200 bps. As we are modeling a rate scenario very similar to this, we assume a FY05 NIM of 1.91%. One area we highlight is the cost of deposits. Our work has found that the average cost of interest bearing deposits has, on average, exceeded the 90-day LIBOR by 146 bps since 2001. However, this ratio had a meaningful decline in the latter half of 2004. We do not attribute the change to a mix shift, as non-IB deposits have remained relatively steady. Rather, we believe that the company, as with most banks we know, has fought to lag deposit pricing as much as possible. At this time, we believe the risks to this ending are very near, and we believe a return to the four-year average is in store. At the same time, we believe that the competitive environment for brokered deposits is increasing in Puerto Rico. We have heard from some in the market that 90-day rates have been recently priced at well over LIBOR. On the asset side, we have modeled the company using a large portion of its current cash position. Our model has money market funds as a percent of assets moving down to less than 10% by YE05. However, note that since 1997 the lowest level has been slightly greater than 7%, in our opinion, and we have modeled slightly greater than 8%. We do have some hesitation in this change, as we believe that the rating agencies would like to see the company maintain as much liquidity as possible. We believe that the rating agencies are more focused on the capital and the IO, but prudence would suggest that cash is king. When we initially outlined our belief that the capital position of the company was not as strong as the stated figures suggested, we did make adjustments for liquidity on the balance sheet. With current stated equity/assets of 13%, we believe one can argue that excess liquidity on the balance sheet is 8% and that this can then adjust the equity position (more on this below).

Last week (on 3/17/05) S&P lowered its outlook on Doral from stable to negative and affirmed the rating of BBB-. In the report, S&P noted that it removes the IO from capital calculations (exactly what we have been arguing). While S&P would obviously not state what would trigger a move to junk, we are of the impression that further impairments would be a serious consideration and that a buyback would not be viewed positively. We again reiterate that we do not believe a buyback is in store for the company. The argument appears to be as simple as measuring the ratio of the IO/equity. And, as we believe that the IO will see further impairments, the equity position could well be eroded. A buyback would simply exacerbate the issue. On 3/21/05 Fitch affirmed it's rating of BBB+, while noting that near-term challenges exist. Fitch did note that recent actions have been taken by management to dampen the IO impairments (which Fitch states are likely). Fitch goes on to comment on the capital ratios of the company on a stated basis and notes that the "capitalization level improves their (Doral's) ability to

withstand risk-related shocks, such as retained interest impairments. Therefore, maintenance of capital at or near current levels is a critical rating factor until greater clarity of the effectiveness of hedging can be demonstrated." The latter portion of Fitch's statement helps reinforce our thinking on a buyback. Further, with the potential for over $500 million in impairments to the IO, we simply do not believe that a buyback is possible.

Another concern that we have regarding the capital position of Doral is that, as we have stated previously, the equity position of the company is different than the stated, in our opinion. Note that approximately 30% of the stated equity is in preferreds. Therefore, the true book value at year-end 2004 was $12.97, as opposed to the greater than $18 figure that the balance sheet would suggest. However, when we adjust for the IO, assuming that this is zero (just as S&P does), then we estimate the equity position was $1.094 million (or $10.13/share). When we then subtract the preferred issuances, the equity position becomes $520 million (or $4.82/share). We note that we do not believe the entire IO will be written to zero. Management has stated that 1/3 of the IO is related to fixed-rate products, and, therefore, we believe this portion is intact. Consequently, our adjusted book value is $7.54/share. We estimate assets per share of $140, resulting in an adjusted equity/assets ratio of 5.4%. When we adjust for excess liquidity and 1/3 of the IO, we estimate assets/share of $123 and an equity/assets ratio of 6.1%. Should the IO become 100% impaired, or were we to assume this, then we estimate that preferred issuances would account for over 52% of capital. Under this scenario, we believe that the company would have to raise equity, as 52% would be over the limit from a regulatory perspective.

Our interpretation is that Fitch is effectively requiring the company to maintain stated capital at high levels, which suggests to us that growth of the balance sheet will be reigned in over the next year or more. We had previously modeled a growth rate in assets near that realized over the past few years. However, after accounting for the statement from Fitch, we believe that a lower growth profile is necessary. Therefore, we have tempered our outlook, bringing our balance sheet growth to slightly greater than 10%. The result is that we have an additional hit to our estimates, while concurrently bringing stated equity/assets down by YE05 to only 12.5%.

Potential Risks Ahead

We believe that there are several potential risks ahead that may yet bring further downside to the shares.

1. **Potential junk rating from the rating agencies:** We believe that such a debt rating could significantly impair the company's ability to tap the securitization markets. Even if a new structure was present that did not bring such activities to a halt, the cost could prove high enough to dampen EPS growth.
2. **A slowing in the mortgage market ahead:** We argue that implicit in Doral's valuation assumptions is a slowing vis-à-vis lower CPR assumptions. At the same time, Doral noted that it is going after a different sector of the market for further growth (that group of home owners without a mortgage). We view this as stretching for growth. Additionally, while we concur that there are uninhabitable dwellings on the island, we wonder how long the home shortage of 100,000 that management continually talks about will last.
3. **Our third risk factor relates to our understanding that the company sent an email to some shareholders on 3/8/05 in response to our downgrade on 3/7/05.** While we certainly cannot say whether this action bears concern, some investors have speculated that this was a Reg. FD violation. Obviously, only time will tell.
4. **We believe it prudent to assume, or at least prepare for, shareholder lawsuits.** Speculation here is futile, and potential outcomes span multiple possibilities, but lawsuits are nonetheless an additional risk factor.
5. **Finally, while the new tax proposal in Puerto Rico has been well telegraphed, we argue that to make the assumption that the tax rate will truly be temporary may be too generous an assumption.** The governor's proposal is a tax of up to 5% on all NII; we believe that a compromised rate may well be near 3%. We can make no call concerning the intent of the government. However, our conversations with officials in Puerto Rico leave us with the impression that the benefits to the banks of the IBE may not be permanent. The tax benefit many Puerto Rican banks have enjoyed has been a major driver of higher-than-normal growth, in our opinion, and has enabled many companies to have higher ROEs and better efficiency ratios than mainland brethren. Should the benefits be taken away, even over time, we firmly believe that the growth rate of many banks will have to be adjusted down, that ROEs may compress, and that valuations will suffer.

We can make no assured predictions of whether any, or all, of the above risks will prove true, but we are of the opinion that any one alone could cause further investor angst.

Valuation

Our new EPS estimates of $1.88 and $3.09 in 2005 and 2006, respectively, reflect a lower gain on sale margin, increased impairments (with roughly 55% hedge effectiveness), and a slower growth rate for the balance sheet. Two notes must be made here: our estimates do not reflect cash earnings, and we are assuming a lower tax rate than we believe is normal. The tax rate we have modeled for 2005 is 12%, which captures the benefit that the company recognized in 4Q04, while we model 15% for 2006. We believe that the company may recognize another gain in 2005, thereby potentially lowering the effective tax rate further, and perhaps for longer. Understand that the company's tax rate has been increasing over the past few years, and we had been of the impression prior to 4Q04 that the effective tax rate going forward would be closer to 18%. Also, we have not factored in the incremental 3%-5% tax that may become effective in 2H05. We estimate that under an 18% tax rate plus 3% from recent proposals, our EPS estimates for 2005 and 2006 would fall to $1.71 and $2.91. We believe that these are the more appropriate figures to use when evaluating the true earnings power of the company. As such, one may argue that applying a P/E of 8x to $2.91 is appropriate, thereby deriving a value of $23.

But, we believe that such a multiple is too generous at this time given all that has transpired over the last several weeks, the above risks that may yet come to fruition, and the lack of management credibility. Further, we believe the adjusted book value is $7.54, and this value represents a P/B of over 3x. Note that our 2006 estimate represents an ROE of slightly greater than 14%. Doral states ROE based on straight equity (excluding the preferred issues), yet states equity/assets inclusive of preferreds. Our adjusted ROE, based on the above starting figure of $7.54 from YE04, is 24%. While this figure is substantial, we are not of the opinion that pricing the shares according to this figure is appropriate, as the adjusted equity/assets of 6.1% is both low enough to substantiate such a return and low enough to suggest a discount be applied for higher risk. If we simply use 24% ROE and an 8x P/E, we find a resulting P/B of 1.92x and a value of $22 at YE06. To account for the risk of a lower capital base we discount this figure by 15%, for a potential value of $19.

The fallacy that we see with both of the above exercises is that we believe investors should not pay 8x for non-cash earnings. Indeed, we argue that 8x is only applicable to the cash earnings of the company. We are of the opinion that a part of the decline seen in the shares over the past few weeks is the recognition by investors that the non-cash earnings are quite volatile and are often subject to revision. While not an exact science, we estimate that cash earnings in 2005 for Doral will be near $1.85 per share. We believe that this is the more appropriate figure to use in valuing the company, and we apply a multiple range of 9-11x, for a value of $18.

When we combine all of the above, we arrive at an average target price of $18, which we are using as our new target price. We believe that risks to the shares continue to exist, from the above concerns, as well as the others we have set forth over the past several weeks. DRL has a stated book value of $12.97, and we estimate adjusted book at $7.54, and we believe that, simplistically, the average of these may ultimately prove to be the floor price (or $10.25). With potential downside to the potential floor of greater than 50%, as well as potential downside to our target of 24%, we struggle with our rating. We do not want to appear as if we are simply piling on a story that has already suffered. Conversely, we feel it is necessary for our ratings to reflect all the risks, whether operational, in earnings, or in price. Attempting to gauge the probability of one, let alone any combination, of the above risks is very difficult, and, therefore, assigning odds of the realization of our $10.25 figure may be futile. Weighting potential EPS figures and the applied multiple is equally as challenging. In the end, we believe we have to stick with what our work is telling us the value is. We fully anticipate the volatility in the shares will remain rather high for some time, and we believe the share price will likely fluctuate about our new target price. We believe we have been very clear in the risks that we see in the shares. Our only regret is that we did not have a SELL rating two weeks ago (but hindsight always works that way). In the end, we are maintaining our HOLD rating, while stressing that potential investors very carefully weigh the risk profile we see present in the shares currently.

Conclusion

After thoroughly examining our model and deciphering all of the issues and risks surrounding the shares of Doral, we are moving our estimates to what we believe are the most realistic levels. We continue to see risks ahead for the shares, ranging from further IO impairments to shareholder lawsuits, and plenty in between. With new information, and answers, being found almost daily, the task of establishing estimates has become rather onerous. Yet, at this time we do believe that we have filtered through all the information of the last two weeks. We are also lowering our target price to $18, which is based on both stated and our estimated cash earnings power, as well as our implied growth model. We believe that the adjusted book value for the company is under $8.00 and that this may prove to be near the ultimate floor for the shares should more problems be

realized. We anticipate further volatility in the share price as events continue to unfold. We have little conviction that the shares will move meaningfully higher over the intermediate term, and we continue to see potential risks ahead. We have struggled with our rating, even at current levels, but believe we have been exceptionally clear in setting forth the risks. While we are maintaining our HOLD rating, it is with a high degree of caution.

HIBERNIA SOUTHCOAST CAPITAL
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A Wholly Owned Subsidiary of Hibernia Corporation.

DRL / NYSE $23.90 **Doral Financial Corporation**

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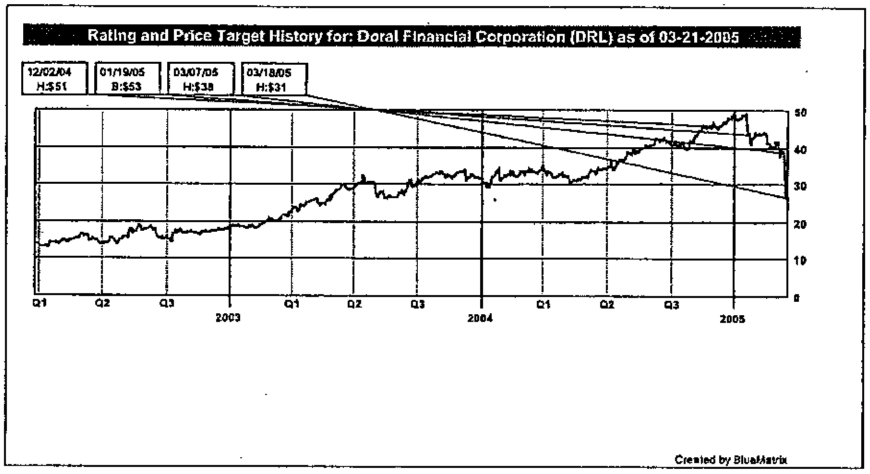
Distribution of Ratings/IB Services
Hibernia Southcoast Capital

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [B]	84	67.20	9	10.71
HOLD [H]	38	30.40	1	2.63
SELL [S]	3	2.40	0	0.00



Risks: Our target price(s) with respect to the company(ies) covered by this report are not guarantees of future performance. They represent forward-looking statements that involve risks, uncertainties, and assumptions. Our target price(s) are based on our beliefs and estimates and on information currently available to us about the company, including statements by its management concerning their expectations regarding its future results. The actual future price of the company's stock may differ significantly from our target price(s), because many of the factors that will determine that price are beyond our ability to predict. Among those factors are future economic conditions in the country as a whole, such as interest rates, inflation, economic growth, and consumer demand. We caution you that these and other important factors could cause the actual future price of the company's stock to be very different from or worse than our target price(s). Accordingly, you should not place undue reliance on our target price(s), which are based only on our current expectations. We undertake no obligation to update any of them in light of new information or future events. Additional factors specific to the company that could affect the future price of the company's stock are identified in the "Risk Factors" section of periodic reports that are required to be filed by the company with the Securities and Exchange Commission. You should evaluate our target price(s) in light of the risk factors, among others, identified by the company in those reports. Prior to the close of business on July 8, 2002, HSC did not provide target prices for stocks rated Hold.

The information contained herein is based on sources we consider reliable, but Hibernia Southcoast Capital, Inc., assumes no responsibility for the completeness or accuracy of such information. Neither the information nor any opinion expressed herein constitutes an offer, or an invitation to make an offer, to sell or buy any securities. Hibernia Southcoast Capital, Inc., or its individual employees and their respective affiliates may from time to time have a long or short position in the security(ies) described above, and before or after your receipt of this report, may make or recommend purchases and/or sales for their own accounts or for the accounts of other customers of the firm from time to time in the open market or otherwise. Opinions expressed are our present opinions only and are subject to change without notice. Hibernia Southcoast Capital, Inc., may from time to time perform investment banking services for the company(ies) described herein. This report has been prepared for general institutional client circulation and does not take into account the financial circumstances, investment objectives, or risk tolerance of any particular investor. Hibernia Southcoast Capital, Inc., recommends that investors seek

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DRL / NYSE $23.90 **Doral Financial Corporation**

GX 1509

UBS

Global Equity Research

Americas

Banks, Ex-S&L

UBS Investment Research

Doral Financial

Rating	Buy 2
	Prior: Not Rated
Price target	US$60.00
	Prior:Not Rated
Price	US$47.96

RIC: DRL.N BBG: DRL US

10 January 2005

Initiating Coverage With Buy 2

- **Outperformance seen sustainable because of strong fundamentals**

Doral's stock has returned a 37% CAGR for the past 12 years vs. 9% for the S&P. We believe outperformance is sustainable in 2005 because of Doral's dominance of Puerto Rico's unique mortgage markert (especially nonconventional loans, which generate high gain-on-sale margins), favorable tax rates, and our proprietary analysis indicating low housing price bubble concerns.

- **Better prepared for rising interest rates**

Doral's stock has a high negative correlation with interest rates, and underperformed in 1994 and 1999 when interest rates rose significantly and the bank was liability sensitive. We believe 2005 will be different, as the bank has an asset-sensitive balance sheet, and management has many options to protect its net interest margin.

- **2005 EPS upside possible due to balance sheet flexibility**

Our 2005 EPS target is $4.55. We see potential upside of at least $0.05 because of deployment of cash into higher-yielding investments. Our 2005 gain-on-sale margin assumptions may also be conservative.

- **Valuation: Cheap relative to peers; $60 target price**

Doral is trading at a 35% PE discount to its U.S. peers versus a historical 29% discount. We expect long-term multiple expansion because of continued strong fundamentals and increased commercial banking efforts. Our Buy 2 rating and $60 target price is based on a multiple of 11x 2006 EPS estimate.

Highlights (US$m)	12/02	12/03	12/04E	12/05E	12/06E
Revenues	407,815	593,252	779,292	953,636	1,123,870
Pre-tax profits	260,976	393,365	566,609	683,267	810,281
Net income	207,238	300,211	432,868	529,375	635,157
EPS (UBS, US$)	1.26	2.72	3.75	4.55	5.44
Net DPS (US$)	0.19	0.40	0.55	0.60	0.70

Profitability & Valuation	5-yr hist. av.	12/03	12/04E	12/05E	12/06E
ROE %	-	32.7	36.0	32.7	29.8
P/Op x	-	-	-	-	-
P/BVPS x	3.9	1.9	2.9	2.4	1.9
PE (UBS) x	22.0	10.2	12.8	10.5	8.8
Net dividend yield %	0.9	1.4	1.1	1.3	1.5

Source: UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$47.96 on 09 Jan 2005

Omotayo Okusanya, II, CFA

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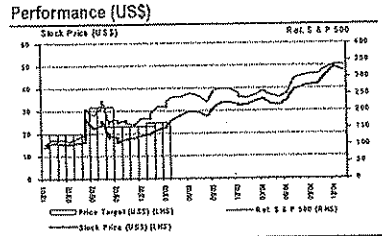
Trading data	
52-wk. range	US$49.25-29.87
Market cap.	US$5.17bn
Shares o/s	108m
Free float	79%
Avg. daily volume ('000)	385
Avg. daily value (US$m)	17.0
Balance sheet data 12/04E	
Shareholders' equity	US$1,961bn
P/BV (UBS)	2.9x
Tier one capital ratio	-
Forecast returns	
Forecast price appreciation	+25.1%
Forecast dividend yield	1.3%
Forecast stock return	+26.4%
Market return assumption	8.2%
Forecast excess return	+18.2%

EPS (UBS, US$)

	12/04E From	12/04E To	Cons.	12/03 Actual
Q1E	-	0.86	*0.86*	0.40
Q2E	-	0.96	*0.96*	0.43
Q3E	-	0.97	*1.01*	0.47
Q4E	-	1.02	*1.04*	0.78
12/04E	-	3.75	*3.88*	
12/05E	-	4.55	*4.54*	

Performance (US$)



Source: UBS

www.ubs.com/investmentresearch

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 9

GOVERNMENT EXHIBIT 1509
08 Cr. 181 (TPG) (ID)

UBS-S 37
Confidential Treatment Requested

Summary and Investment Case

We are initiating coverage on Doral Financial with a Buy 2 rating and a 12-month target price of $60. Our rating reflects Doral's current valuation at the low end of its historical norms relative to its U.S. peers, our expectations for strong earnings growth from the company in 2005, and our belief that investors will bid up the shares as they become more aware of the sustainability of the fundamentals that have resulted in Doral's dominance of Puerto Rico's unique mortgage market and the company's significant outperformance of its peers. We believe historical outperformance is sustainable in 2005 because of Doral's dominance of Puerto Rico's nonconventional and FHA/VA mortgage market (which generate high gain-on-sale margins), continued favorable tax rates, mortgage origination being less sensitive to increasing rates versus the United States, and our proprietary analysis indicating low housing price bubble concerns.

We are initiating coverage on Doral Financial with a Buy 2 rating and a 12-month target price of $60

Strong Visibility Into 2005 Earnings; EPS Upside Likely

Doral management has publicly stated that substantially all of its nonconventional loan production for 2005 and half of 2006 has already been pre-sold, which we believe gives us clear visibility into gain-on-sales contribution to income for the next 18 months. We also believe the bank will actively manage the almost $2 billion in cash on the balance sheet and move it into higher-yielding assets as interest rates climb. Assuming that, over the course of 2005, $1 billion of this cash and money market securities is moved into treasuries earning a 1.5% spread over cost of funds, then, on average, this cash would have earned about $15 million, or have a $0.10 EPS impact. We only conservatively put in $0.05 of this upside into our estimates. We also believe our gain-on-sales margin assumption may prove conservative, given recent trends. We also note that Doral has met or exceeded quarterly consensus estimates for the past 30 quarters.

We believe EPS upside is likely given clear visibility into gain-on-sales contribution to income for the next 18 months and actively managing the almost $2 billion in cash as interest rates climb

Positive Exposure to Traditional Drivers of Stock Performance Should Result in 2005 Outperformance

Puerto Rico bank stock performance traditionally has been highly positively correlated with earnings growth. For 2005, we are projecting EPS of $4.55, or 21% EPS growth versus 2004 for Doral based on strong fundamentals. This growth rate is among one of the highest we are projecting for Puerto Rico banks. We derive our EPS estimate on net interest income growth of 25%, mortgage loan origination growth of 12%, a gain-on-sale margin of 675 bp, net interest margin of 2.32% (up 5 bp versus 2004 because of asset sensitivity of the balance sheet), loan receivable and core deposit (ex jumbo CDs) growth of 15% and 10%, respectively, and a tax rate of 18%. We also adjusted our diluted earnings per share by $0.20 for the recent FASB pronouncement (EITF 04-08) on contingently convertible debt (Co-Cos).

Doral has the best exposure to traditional drivers of stock performance in Puerto Rico

Puerto Rico bank stock performance traditionally has also been highly negatively correlated with interest rates. Per management disclosures, the bank's balance sheet is asset sensitive, and the management team expects a 5% increase in net interest income should rates rise steadily by 200 bp over the next 12 months.

We see both these drivers as positives for Doral in 2005, given overall expectations for rising rates in 2005. Other key macro drivers of earnings growth and stock appreciation for Doral include continued housing shortage driving demand for housing, very low commercial real estate vacancy rates, continued favorable low-tax environment, 2005 GNP growth forecasts of 3.0%, stable unemployment rates, and favorable sentiment toward foreign direct investments in Puerto Rico in particular, and the Latin American region in general because of a stable economic outlook.

What Differentiates Doral?

- Doral is the number-one mortgage originator in Puerto Rico with about 45-50% of total origination market share. As an island, land is a scarce resource. There is a severe shortage of housing on the island, with the latest estimates at about 80,000-100,000 homes. This shortage has been steadily increasing (from 50,000 in 2001) despite efforts to spur construction on the island. Our analysis indicates that new home prices have appreciated at 11% a year for the past five years, well above the 6-7% historical average in the United States. Fifty percent of the housing market is geared toward government-assisted housing, and Doral has been steadily increasing market share in this product, with current share close to 60%. We believe Doral can continue to build market share because of superior customer service and pricing advantages because of low efficiency ratios. This should translate to higher revenue and EPS growth than local peers.

- We expect a smaller drop in mortgage origination volume at Doral because of the company's large distribution network and business concentration in Puerto Rico. Although we expect a slowdown in originations in the near term because of increasing interest rates, we do not believe mortgage originations in Puerto Rico will decline as much as on the U.S. mainland in increasing interest rate environments because of the current housing shortage. We analyzed three periods of increasing interest rates (1997, 2000, and 2004) and found that originations were up 6%, down 20%, and down 36%, respectively, in the United States over this period. In contrast, Puerto Rico had originations up 14%, down 9%, and down 7%, respectively, over these same periods. Doral, in contrast, was up 27%, up 17%, and up 16% over these same periods, respectively, primarily because of the company's proactive sales culture, extensive origination network, and superior customer service.

- Doral has an attractive loan mix, with about 45% of loan sales coming from the high-margin nonconforming loans, and only 30% coming from low-margin conventional loans (where Doral makes standard industry margins). Doral dominates originations of nonconventional loans and has significant pricing power, as MBS products collateralized by such loans are highly sought by other banks to meet Community Reinvestment Act (CRA) regulation, and to perform asset-liability matching. Per management, historical gain-on-sale margins for nonconventional loans have been anywhere from 800 to 1,200 basis points. FHA/VA loans for new homes (about 15-20% of Doral's business) are also tax-exempt, which results in higher gain on sales. We expect 600-700 bp gain-on-sale margins in 2005 because of full commitment for fiscal year 2005 and first half 2006 nonconventional loan origination by third parties.

- Arguably, one of Doral's greatest strengths is the caliber and depth of its management team, which has steered the company to its admirable performance over the past 30 years. Doral was formed in 1972 by three siblings, Mr. Salomon Davis, Ms. Zoila Davis, and Mr. David Levis. All three still play a significant role in the day-to-day activities of the company, with Mr. Salomon Davis serving as chairman and CEO and Ms. Zoila Davis currently serving as president and COO. Mr. Salomon Levis ranked as one of the top 10 best bosses on Wall Street for the past two years by *Forbes* magazine. Doral's management team has been through numerous business cycles in Puerto Rico over the past 30 years, which gives us confidence the team can effectively manage the company through changing economic environments, especially the expected increasing interest rate and flattening yield curve environment forecast by most economists in 2005. We also believe the management team has developed a strong sales and customer service-driven culture, which has been difficult for many other commercial banks to replicate on the island.

As an island, land is a scarce resource in Puerto Rico. There is a severe shortage of housing on the island, with the latest estimates at about 80,000-100,000 homes. This shortage number has been steadily increasing (from 50,000 in 2001) despite efforts to spur construction on the island. Our analysis indicates that new home prices have appreciated at 11% a year for the past five years, well above the 6-7% historical average in the United States. The backbone of the mortgage business in Puerto Rico has been the constant appreciation of real estate prices on the island. This has enabled mortgage refinancings to continue at a record pace, as well as spurred consumers to invest in homes as an asset class. In addition, strong prices have enabled the local banks with large mortgage operations to have charge-off rates in this business that are lower than their U.S. peers.

Our proprietary analysis indicates that the Puerto Rican housing market should remain strong for the foreseeable future

Given the reliance on home price appreciation as a key driver for the mortgage business, we asked ourselves the inevitable question: Could real estate prices ever come down, and when could such an event happen? To answer this question, we spoke with real estate agents on the island, the Puerto Rico Association of Realtors, the Mortgage Banking Association of Puerto Rico, and Estudios Tecnicos, a major economic consultancy firm on the island. Based on data we gathered, we have devised a proprietary tool called the UBS Puerto Rico Housing Affordability Index (PRHAI), which we believe accurately reflects house affordability on the island. Our theory is that home affordability is the key to gauging future appreciation in home prices. When homes become too pricey, the simple laws of supply and demand suggest that prices have to come down, which could trigger a slowdown in originations and possible credit losses at the local banks.

The UBS PRHAI is a derivative of the House Affordability Index (HAI) created by the National Association of Realtors (NAR). From 1999 to the first quarter of 2004, the UBS PRHAI has decreased to 103 from 118, indicating to us that it has become more difficult to buy a home on the island. At an index value of 103, it is more difficult for the average income-earning Puerto Rican to buy an average home in Puerto Rico than the median income-earning American to buy a median-priced home on the U.S. mainland, where the HAI value was 134 as of the second quarter of 2004. We, however, believe home prices in Puerto Rico still have quite a bit of upside before there can be serious concerns about a home price correction. We have two analogies that explain why we believe this to be so:

(1) The index value in the Western part of the United States dipped as low as 89 in July 2004. In addition, recent HAI estimates for New York City and San Francisco are 43 and 19, respectively, yet these two markets still continue to experience strong real estate appreciation. We also estimate that the average HAI for our sample of 15 large U.S. metropolitan cities (including Atlanta, Chicago, Houston, Miami, Seattle, Los Angeles, Boston, New York, and San Francisco) is around 85. We believe San Juan, Puerto Rico, shares similar characteristics to large our sample of 15 large U.S. metropolitan cities with regard to being industrial hubs and desired locations to live. In addition, Manhattan and Puerto Rico share the unique characteristic of being islands with limited space for building.

(2) Between 1977 and 1981, residential real estate prices in the United States were increasing on average at an annual rate of slightly over 10%. A corollary of this increase was that the U.S. HAI dropped to about 67 from 120. At this trough, home price appreciation dropped to 1-2% a year and did not return to the U.S. historical averages of about 5-6% until 1986, when the HAI returned to a value of 99.3.

All else being equal, it appears that the HAI could theoretically drop to values around 70 before fears of a price correction become real. Our PRHAI indicates

that home prices in Puerto Rico can still rise at 10% a year for the next four years, without an increase in family income, before our PRHAI hits a value of 70.

Interest Rates a Concern, But Not Like 1999

Puerto Rican banks like Doral are generally more reliant on non-core funding sources such as large time deposits and repurchase agreements than their U.S. peers because of the lack of core deposits on the island to support their superior loan growth rates. In an increasing interest rate environment, the use of non-core deposits is less advantageous than core deposits, as non-core deposits generally reprice quicker.

In the past 12 years, Doral underperformed its U.S. peer group and the S&P index twice. This was in 1994 and 1999, two periods of increasing interest rates. We believe Doral underperformed in these two periods because its balance sheet was liability sensitive in both these period. As a result, an increase in rates in both 1994 and 1999 significantly impacted net interest margins. Our chief economist at UBS is predicting a 175 basis point increase in federal funds rates in 2005.

Doral Better Prepared for Interest Rate Increases This Time Around

We believe Doral has come a long way and is nowhere close to the levels of balance sheet liability sensitivity it historically exhibited during these past two periods of rising rates. Specifically:

- The bank has about $2 billion (or 15%) of its assets in cash or money market funds earning about 2%. In a rising rate environment, we fully expect management to move this balance into higher-earning assets such as tax-free mortgage backed securities to offset rising funding costs and protect net interest margins.

- The bank is overcapitalized, and management has publicly stated that excess capital would be redeployed into higher-yielding assets such as tax-free mortgage backed securities as rates continue to rise, in order to protect net interest margins.

- Since 1999, Doral has been actively trying to reduce its dependence on non-core deposits and other short-term variable rate funding sources. We estimate that funding that is most sensitive to rate changes with regard to repricing (i.e., large brokered CDs and repurchase agreements) has decreased to 50% of total funding in 2004 from 54% of total funding in 1999.

- Management has an active hedging program against losses in the securities portfolio because of increased rates. Per management, should the hedging program be effective, unrealized losses on securities should be mitigated by

gains in the hedging position, thereby allowing management to realize the loss with little earnings impact, and move cash proceeds from a sale into higher-yield earning assets.

- Despite the short-term nature of brokered CDs as a funding source, these products have become increasingly more sophisticated with regard to how they are structured, and the ability to get brokered deposits with longer maturities has improved over the past five years. We believe local banks (including Doral) have become sophisticated at tapping into this market as a lower cost source of funding versus core deposits, and that asset-liability matching has become easier with the increasing sophistication and longer maturity of the brokered CD product on the island.

- Financial disclosures indicate that the bank currently has an asset-sensitive balance sheet and should benefit from an increase in rates. From the third quarter 2004 10-Q, management states that, "Given a linear 100 and 200 basis point increase in the yield curve used in the simulation model, it is estimated net interest income for Doral Financial would increase by 2.6% and 4.8% over one year."

- Variable rate construction loans and commercial real estate loans now make up 30% of the loan portfolio versus 20% in 1999. We believe increasing the size of the variable rate loan portfolio has reduced the duration of Doral's assets and improved asset-liability matching with its non-core funding sources.

- The company has purchased various interest rate collars intended to protect against significant increases in interest rates. The notional amount of these collars is almost $2.0 billion.

Because of better positioning of the balance sheet, downward trends in non-core deposit funding, and numerous mitigation options available to management, we do not expect a decline in Doral's net interest margins as rates continue to rise as expected in 2005. We note that though fed funds rates increased by 60 basis points between the second quarter 2004 and third quarter 2004, net interest margins for Doral actually went up by 1 basis point. We expect to see similar trends in 2005 as rates go up, with some possible offset because of pricing pressures.

Valuation

Cheap Relative to U.S. Peers; $60 Price Target

Doral is currently trading at a 2005 forward PE multiple of 10.5 times, which is a 35% discount to its U.S. peers (a basket of 60 U.S. regional banks with market caps between $1 billion and $6 billion). Over the past seven years, Doral has traded at an average discount of 29%. For valuation purposes, we use the historical forward PE multiple of 14.5 times for Doral's U.S. peers to value the stock. Using the average 29% discount to a 2005 forward PE multiple of 14.5 times on 2006E earnings of $5.44, we get a theoretical 12-month price target of $56 for Doral. We also valued Doral based solely on the company's fundamentals and ability to generate excess returns. In our excess return model, the value of Doral's equity was derived as the sum of equity invested in the company's current investments and the expected excess returns to equity investors from these and future investments. In our excess return model, we used a 7.6% cost of equity, ROE assumptions of 31.5% in 2005, which we gradually reduced to the 20-21% current average ROE of the local banks by 2010, and then to the current average 15% ROE of the U.S.-based banks by 2016. Based solely on fundamentals and Doral's ability to generate industry-leading returns, our asset model gave us a theoretical 2005 price target of $63.

Doral is currently trading at a 35% discount to its U.S. peers versus its 29% historical discount, despite strong fundamentals

Our theoretical $63 price target from our excess return model implies a 2005 forward PE multiple of 11.6 times or a 20% discount to our expectation for 2005 PE for Doral's U.S. peers. Given our belief that the company has never been fully valued on fundamentals, we are therefore comfortable taking an average to reach a price target of $60, which represents a 24% discount to our expected forward PE for Doral's U.S. peers in 2005. We believe this price target provides attractive upside potential based on: 1) investors becoming more aware of the unique nature of mortgage banking in Puerto Rico; 2) Doral's dominance of this market; 3) the proven ability of the company to generate industry-leading returns; and 4) valuing the company using a mix of fundamentals in our excess return model, as well as widely used PE valuation metrics.

Though we are setting a 12-month price target for Doral that infers a PE more in line with U.S. thrifts and savings and loans companies, we believe there is a strong case to be made for multiple expansion of Doral's stock in the future. We agree that the majority of the business is real-estate-related, but it is still to a lesser extent than U.S. thrifts. As Doral continues to build its commercial banking business, we believe the stock will be accorded higher multiples in line with its local peers, which have less of a mortgage focus. In just one decade, Doral Bank - PR (Doral Financial's commercial banking subsidiary) has established itself as one of the fastest-growing, full-service commercial banks in Puerto Rico. In 10 years, the Doral Bank - PR has grown to 37 offices and more than $3.0 billion in deposits from two offices and $50 million in deposits. This strong growth has earned Doral Bank - PR the number-four spot among Puerto Rico's commercial banks in terms of assets, jumping four notches in two years,

Doral's forward PE multiple of 10.5 times is lower than that of large U.S thrifts such as Washington Mutual or Golden West, despite superior operating metrics

according to the Puerto Rico Office of the Commissioner of Financial Institutions. In addition, total loan market share has doubled to 5.7% in 2004 from 2.3% in 2000, moving Doral Bank - PR to seventh place from 10th place with regard to loan market share.

For more details on Doral Financial, please refer to our soon to be published comprehensive company report. For more details on the Puerto Rican banking sector, please refer to our soon to be published industry report entitled *The Puerto Rican Banking Sector: Are Superior Stock Returns From San Juan Sustainable?*.

Doral Financial

Doral Financial Corp. is a Puerto Rican bank that engages in a wide range of mortgage banking activities, including the origination, purchase, sale and servicing of mortgage loans on single-family residences, and operates bank branches in Puerto Rico and New York City.

Statement of Risk

Doral Financial's results are sensitive to interest rate fluctuations. Changes in interest rates can materially affect the volume of loan originations, net interest income earned, gain on sales, the value of security holdings, and the value of servicing assets and interest only strips.

Doral Financial's business activities and credit exposure are concentrated in Puerto Rico. Consequently, its financial condition and results of operations are dependent on the economic conditions in Puerto Rico, as well as changes in legislation on the island.

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Securities LLC, an affiliate of UBS AG (UBS).

UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage[1]	IB services[2]
Buy 1	FSR is > 10% above the MRA, higher degree of predictability	Buy 2	FSR is > 10% above the MRA, lower degree of predictability	Buy	36%	32%
Neutral 1	FSR is between -10% and 10% of the MRA, higher degree of predictability	Neutral 2	FSR is between -10% and 10% of the MRA, lower degree of predictability	Hold/Neutral	53%	35%
Reduce 1	FSR is > 10% below the MRA, higher degree of predictability	Reduce 2	FSR is > 10% below the MRA, lower degree of predictability	Sell	11%	29%

1: Percentage of companies under coverage globally within this rating category.
2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 31 December 2004.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).
Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Rating/Return Divergence (RRD) This qualifier is automatically appended to the rating when stock price movement has caused the prevailing rating to differ from that which would be assigned according to the rating system and will be removed when there is no longer a divergence, either through market movement or analyst intervention.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-10% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned table in the relevant research piece.

Companies mentioned

Company Name	Reuters	Rating	Price
Doral Financial[2,4,16]	DRL.N	Buy 2	US$47.96

Price(s) as of 7 January 2005. Source: UBS.

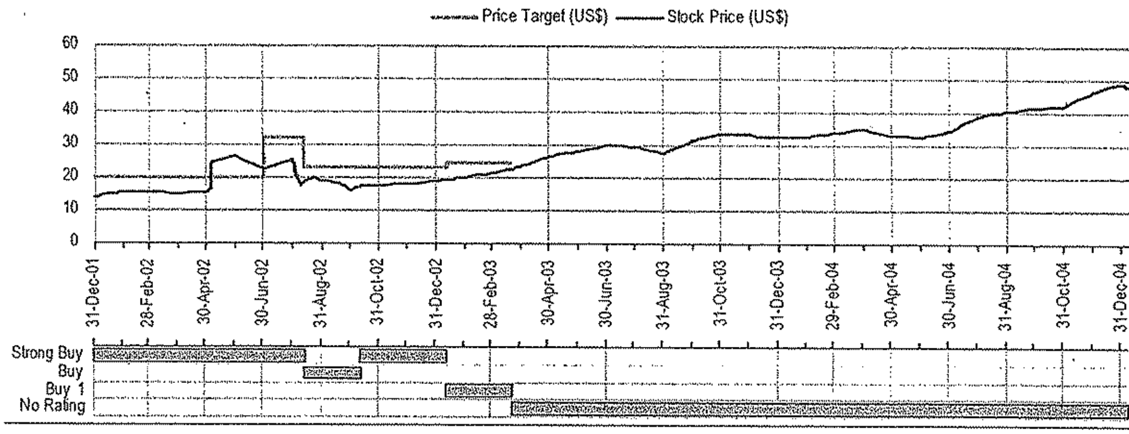
2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past 12 months.

4. Within the past three years, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.

16. UBS Securities LLC and/or UBS Capital Markets LP makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Doral Financial (US$)



Source: UBS; as of 7 January 2005.

Note: On October 13, 2003, UBS adopted new definition criteria for its rating system. (See 'UBS Investment Research: Global Equity Ratings Definitions and Allocations' table for details.) Between January 11 and October 12, 2003, the UBS ratings and their definitions were: Buy 1: Excess return potential > 15%, smaller range around price target; Buy 2: Excess return potential > 15%, larger range around price target; Neutral 1: Excess return potential between -15% and 15%, smaller range around price target; Neutral 2: Excess return potential between -15% and 15%, larger range around price target; Reduce 1: Excess return potential < -15%, smaller range around price target; Reduce 2: Excess return potential < -15%, larger range around price target. Prior to January 11, 2003, the UBS ratings and definitions were: Strong Buy: Greater than 20% excess return potential, high degree of confidence; Buy: Positive excess return potential; Hold: Low excess return potential, low degree of confidence; Reduce: Negative excess return potential; Sell: Greater than 20% negative excess return potential, high degree of confidence. Under both ratings systems, excess return is defined as the difference between the FSR and the one-year local market interest rate.

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